

Message Text

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TO SECSTATE WASHDC 5731

UNCLAS SECTION 1 OF 2 USNATO 0527

E.O. 11652: N/A

TAGS: ECON, NATO, CH

SUBJ: ECONADS: FEB 26 REINFORCED MEETING ON CHINA

REF: USNATO 357 AND 474

1. AS OF POSSIBLE ASSISTANCE TO THE DEPARTMENT IN PROVIDING GUIDANCE REQUESTED IN REFTELS, WE QUOTE IN PARA 3, BELOW, THE TEXT OF ED/EC/76/6 (JUST RECEIVED IN ENGLISH VERSION), GIVING THE ECONOMIC DIRECTORATE'S SUGGESTIONS FOR THE THRUST OF THE FEB. 26 EXPERTS MEETING: PROBLEMS OF DEVELOPMENT, AGRICULTURE, AND FOREIGN TRADE.

2. WE APPRECIATE STATE 24949 AND ASSUME WE MAY SHARE IT WITH THE ECONOMIC COMMITTEE IN ADVANCE OF THE FEB. 26 MEETING. PLEASE CONFIRM.

3. BEGIN TEXT OF ED/EC/76/6:

ECONOMIC TRENDS IN THE CHINESE PEOPLE'S REPUBLIC (1974-1975)

NOTE BY THE ECONOMIC DIRECTORATE

THE LAST STUDY OF THE CHINESE ECONOMY WAS MADE ABOUT 18 MONTHS AGO AND THE RELEVANT REPORT WAS SUBMITTED BY THE ECONOMIC COMMITTEE TO THE COUNCIL FOR INFORMATION IN CM (74) 69, 18 UNCLASSIFIED

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OCTOBER 1974. THE CHINESE ECONOMY IS NEXT SCHEDULED FOR CONSIDERATION BY THE COMMITTEE ON 26TH FEBRUARY, 1976, WHICH MEANS THAT THE REPORT SUMMARIZING NATIONAL CONTRIBUTIONS, EXPERTS' EXCHANGES OF VIEWS AND COMMITTEE DISCUSSIONS SHOULD

BE READY EARLY IN THE SPRING.

2. IT IS ESSENTIAL THAT SUFFICIENT TIME SHOULD BE ALLOWED TO ELAPSE BETWEEN TWO SUCCESSIVE STUDIES OF THIS TYPE SINCE THE CHINESE HAVE NOT PUBLISHED OFFICIAL STATISTICS FOR FIFTEEN YEARS OR SO AND THE COLLECTION AND PROCESSING OF INCOMPLETE DATA ON AN ADEQUATE SCALE REQUIRES TIME. ALTHOUGH THE CHINESE PEOPLE'S REPUBLIC HAS BEEN A MEMBER OF THE UNITED NATIONS SINCE 1971 IT DOES NOT YET, APPARENTLY, PROVIDE THIS ORGANIZATION WITH ANY ECONOMIC DATA; THE ONLY STATISTICS ON WHICH REASONABLY ACCURATE INFORMATION IS AVAILABLE ARE THOSE ON FOREIGN TRADE, WHICH CAN BE GLEANED FROM CHINA'S TRADING PARTNERS. IT IS SUGGESTED THAT THE NEXT MEETING SHOULD BE BASED ON TWO PRINCIPAL TALKING-POINTS; FIRST, AN ANALYSIS OF PRESENTDAY DEVELOPMENT DIFFICULTIES IN CHINA AND, SECONDLY, PEKING'S INTERNATIONAL ECONOMIC RELATIONS.

PROBLEMS OF DEVELOPMENT

3. THE MAIN LONG-TERM OBJECTIVE OF A SURVEY OF THE CHINESE ECONOMY IS TO FURNISH AN ESTIMATE OF HOW LONG IT WILL TAKE CHINA TO ACHIEVE, IN SUPPORT OF ITS FOREIGN POLICY, AN ECONOMIC CAPABILITY WHICH MAY DIRECTLY OR INDIRECTLY AFFECT THE BALANCE OF FORCES IN AREAS OF INTEREST TO THE ALLIANCE. THIS IS THE ANGLE FROM WHICH A STUDY OF CHINA'S DEVELOPMENT PROBLEMS SHOULD BE CONDUCTED. ACCORDING TO THE CHINESE LEADERS, A FIVE-YEAR DEVELOPMENT PLAN TO BE IMPLEMENTED FROM 1976 AND A FORWARD-PLANNING PROGRAMME COVERING A PERIOD OF TEN YEARS SHOULD MAKE CHINA A LEADING WORLD ECONOMIC POWER BEFORE THE END OF THE CENTURY. IN THIS CONTEXT, ONE OF THE REGIME'S MAIN AIMS HAS ALWAYS BEEN TO ESTABLISH A MODERN INDUSTRY AS SOON AS POSSIBLE. THIS CAN ONLY BE DONE WITHIN THE PLANNED TIMEFRAME IF TECHNOLOGY AND EQUIPMENT IS OBTAINED FROM THE INDUSTRIALIZED COUNTRIES. ON THE OTHER HAND, HOWEVER, CHINA MUST HAVE THE WHEREWITHAL TO PAY FOR ITS PURCHASES AND AS LONG AS IT CONTINUES TO RECOIL FROM SEEKING LONG-TERM CREDITS AND PURSUES A POLICY OF BALANCING FOREIGN TRADE, IMPORTS WILL HAVE TO BE PAID FOR ESSENTIALLY OUT OF EXPORTS. HENCE THE IMPORTANCE OF SUSTAINED GROWTH IN AGRICULTURAL PRODUCTIVITY, WHICH WOULD MAKE IT UNCLASSIFIED

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POSSIBLE NOT ONLY TO CURTAIL GRAIN IMPORTS BUT ALSO TO STEP UP EXPORTS OF AGRICULTURAL PRODUCE AND LIGHT INDUSTRY GOODS. BUT THERE ARE NEW FACTORS, SUCH AS THE AVAILABILITY OF CERTAIN METALS AND, ABOVE ALL, SALES OF OIL, WHICH MAY PROVIDE CHINA WITH RESOURCES UNDREAMED OF A FEW YEARS AGO.

4. IT IS ACCORDINGLY SUGGESTED THAT THE SURVEY SHOULD DEAL WITH AGRICULTURAL OUTPUT AND HOW IT IS LIKELY TO DEVELOP, THE FOOD SITUATION OF THE POPULATION AND BASIC INDUSTRIAL PRODUCTION AND INDUSTRIALIZATION POLICY. SPECIAL ATTENTION SHOULD BE PAID TO TRANSPORT QUESTIONS, IN TERMS BOTH OF DOMESTIC TRANSFERS OF RESOURCES AND OF FOREIGN TRADE. THE ECONOMIC SURVEY COULD CONCLUDE WITH AN ANALYSIS OF PLANNING, TO THE EXTENT THAT

SUFFICIENT INFORMATION IS AVAILABLE. AMONG THESE HEADINGS, THERE ARE SOME WHICH WILL DOUBTLESS MERIT SPECIAL CONSIDERATION:

- AGRICULTURAL OUTPUT HAS EXPANDED VERY REGULARLY FOR SOME YEARS NOW, POSSIBLY OWING TO CERTAIN FACTORS SUCH AS A SUSTAINED PERIOD OF FAVOURABLE CLIMATIC CONDITIONS, INCREASED INVESTMENT AND INTENSIVE USE OF MANPOWER TO COUNTER THE EFFECTS OF BAD WEATHER. IN SPITE OF THIS, GRAIN IMPORTS HAVE CONTINUED TO BE EXTENSIVE. THEY WERE ENORMOUS IN 1974 BUT DROPPED BY HALF IN 1975 EITHER BECAUSE THEY WERE LESS NECESSARY OR IN ORDER TO CURB THE TRADE DEFICIT. RICE OUTPUT IS INCREASING AND NEARLY TWO MILLION TONS WERE SOLD IN 1973. IT IS BELIEVED THAT GRAIN PRODUCTION IS INCREASING AT A RATE OF AROUND 3PERCENT A YEAR, WHICH MEANS THAT IT IS AHEAD OF POPULATION GROWTH - ESTIMATED TO BE APPROXIMATELY 2PERCENT A YEAR - ALTHOUGH OPINIONS DIFFER WIDELY ON THE SIZE OF THE POPULATION, WITH ESTIMATES VARYING FROM 850 TO 930 MILLION FOR 1975;
- WHERE BASIC INDUSTRIAL RAW MATERIALS ARE CONCERNED, COAL PRODUCTION DOES NOT APPEAR TO BE RISING SUFFICIENTLY TO MEET REQUIREMENTS. HOWEVER, THE MOST INTERESTING FEATURE IS, OF COURSE, THE EXPANSION OF OIL PRODUCTION. INITIALLY, SOME FIFTEEN YEARS AGO, PROGRESS WAS FAIRLY SLOW BUT OUTPUT IS NOW GOING UP ANNUALLY BY ABOUT 20PERCENT AND THIS IS SIMILAR TO WHAT HAPPENED IN LIBYA AND ALGERIA IN THE PAST. PRESENT-DAY PRODUCTION, WHICH IS ESTIMATED AT 80 MILLION TONS, COULD BE PUSHED UP TO 200 MILLION TONS IN 1980, REPRESENTING AN EXPORT CAPACITY OF PERHAPS 50 MILLION TONS WHICH, AT TODAY'S PRICES, REPRESENTS EARNINGS OF \$3 MILLIARDS TO \$4 MILLIARDS. BUT BECAUSE OF THE COMPOSITION OF SOME OF THE CHINESE OIL ITS MARKETING WOULD RAISE CERTAIN

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TECHNICAL DIFFICULTIES CONNECTED WITH TRANSPORT AND REFINING WHICH COULD INFLUENCE ITS COST AND THE ENTHUSIASM OF POTENTIAL BUYERS;

- AN ANALYSIS OF INDUSTRIAL PRODUCTION AND OF INDUSTRIALIZATION POLICY SHOULD NOT OVERLOOK THE ARMAMENTS INDUSTRIES, OF WHICH LITTLE IS PROBABLY KNOWN, ALTHOUGH SOME EXPERTS HAVE OBSERVED A DROP OF BETWEEN 20 AND 25PERCENT IN ARMAMENTS EXPENDITURE SINCE 1971; THIS, IT APPEARS, WAS FOR REASONS OF ECONOMIC AND MILITARY POLICY WHICH ENTAILED CHANGES IN PRIORITY. ESTIMATES OF CHINESE DEFENCE EXPENDITURE RANGE FROM \$10 MILLIARD TO \$21 MILLIARD FOR 1974-1975. ACCORDING TO ESTIMATES, NATIONAL PRODUCT HAS BEEN INCREASING AT AN AVERAGE OF BETWEEN 7 AND 8PERCENT A YEAR SINCE 1970; IN ABSOLUTE TERMS, HOWEVER, THESE ESTIMATES, WHICH ARE BASED ON DIFFERENT METHODOLOGIES, VARY WIDELY FROM ABOUT \$150 MILLIARD TO OVER \$200 MILLIARD FOR 1974. IT IS THEREFORE DIFFICULT TO FORM A CLEAR PICTURE OF THE ECONOMIC BURDEN REPRESENTED BY MILITARY EXPENDITURE.

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CHINA'S INTERNATIONAL ECONOMIC RELATIONS

5. THE SECOND POINT OF INTEREST, A SHORT-MEDIUM-TERM ONE, IS THE DEVELOPMENT OF FOREIGN TRADE, ON WHICH THE MOST RECENT REVIEWS OF THE CHINESE ECONOMY HAVE CONCENTRATED.

6. ON THE CHINESE SIDE, THE EXTENSION OF FOREIGN TRADE DEPENDS ON EXPORT AVAILAILITIES AND ON THE LEADERS' WILLINGNESS TO ACCEPT SOME DEGREE OF EXTERNAL INDEBTEDNESS IN ORDER TO SUPPORT THE GROWING EFFORT NEEDED TO BALANCE EXPORTS AND IMPORTS. ON THE WESTERN SIDE, IT DEPENDS ON THE WAY OF LOOKING AT AN ATTRACTIVE, ALBEIT FAR-OFF, MARKET OF ENORMOUS SIZE WITH A GREAT VARIETY OF NEEDS. SO FAR, IT IS PROBABLY THE TRADING CAPACITY OF THE CHINESE MARKET, RATHER THAN DELIBERATE POLICY ON THE PART OF THE LEADERSHIP, WHICH HAS BEEN MAINLY RESPONSIBLE FOR CURBING FOREIGN TRADE; EXPORTS FROM THE NATO COUNTRIES AS A WHOLE TO CHINA ACCOUNTED FOR ONLY 0.5PERCENT OF THEIR OVERALL EXPORTS IN 1974, WHICH IS AROUND THE FIGURE RECORDED IN 1960. THIS MEANS TO SAY THAT EXPORTS FROM THE ALLIED COUNTRIES HAVE NOT EXPANDED MORE RAPIDLY ON THE CHINESE MARKET THAN ON THE OTHER FOREIGN MARKETS TAKEN AS A WHOLE.

7. ALTHOUGH FOR THE NATO COUNTRIES THE CHINESE MARKET REMAINS COMPARATIVELY SMALL, IT IS FAR FROM NEGLIGIBLE BECAUSE OF THE VERY NATURE OF ITS REQUIREMENTS, WHICH PROVIDE GOOD POINTERS UNCLASSIFIED

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REGARDING THE DEVELOPMENT OF THE ECONOMY. THE TRENDS OF CHINESE FOREIGN TRADE, WHICH IS ALWAYS POLITICALLY MOTIVATED, ARE ALSO WORTH LOOKING AT CAREFULLY: FOR EXAMPLE, THE WARSAW PACT COUNTRIES WHICH, IN 1960, ACCOUNTED FOR THREE-QUARTERS OF CHINESE FOREIGN TRADE, HAVE GRADUALLY LOST GROUND TO THE FREE WORLD, WHICH TODAY SUPPLIES 87PERCENT OF CHINA'S IMPORTS, WHILE RUSSIA'S SHARE HAS DROPPED FROM 40PERCENT IN 1960 TO UNDER 2PERCENT IN 1974. TO THE EXTENT THAT PURCHASES FROM THE

UNITED STATES INCREASE, THE NATO COUNTRIES' SHARE IN CHINESE IMPORTS, WHICH WAS 34PERCENT LAST YEAR, MAY RISE STILL FURTHER. THIS DEVELOPMENT IS LIKELY TO WHIP UP COMPETITION BETWEEN THE UNITED STATES AND JAPAN, WHICH IS CHINA'S MAIN TRADING PARTNER; IT SHOULD ALSO INFLUENCE, IN ONE WAY OR ANOTHER, THE GROWTH OF SOVIET-JAPANESE TRADE AND PERHAPS, AS A RESULT, THE HARNESSING OF CERTAIN SIBERIAN RESOURCES. LASTLY, THE LINKS ESTABLISHED BETWEEN CHINA AND THE EUROPEAN ECONOMIC COMMUNITY BRING A NEW DIMENSION TO THE SITUATION.

8. TO SUM UP, CHINESE TRADING TRENDS ARE OF SPECIAL INTEREST IN AS MUCH AS THEY REFLECT POLITICAL DECISIONS AND THEY WOULD SEEM TO WARRANT A MORE THOROUGH GOING INVESTIGATION THAN A MERE REVIEW OF TRADE WITH THE INDUSTRIALIZED COUNTRIES ALONE. THE DIFFICULTIES ARISING FROM A TRADE DEFICIT WHICH JAPANESE EXPERTS PREDICT WILL CONTINUE UNTIL 1980 SHOULD NOT, HOWEVER, BE OVERLOOKED SINCE THEY ARE LIKELY TO INFLUENCE CHINESE THINKING IN THE CONDUCT OF FOREIGN TRADE. END TEXT.
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